



Performance pay

has had its day

Gambling with our pay

Performance pay and roulette wheels have some things in common. Both are unpredictable so you can never be sure of the outcome. There aren't many winners: some do quite well but most miss out. And both systems carefully ration how much is paid out. The 'house' always wins.

Performance pay systems swept through local and central government during the 1980s and 90s. It was the big idea of the time, seen as the answer to motivating employees and improving performance, and New Zealand was at the forefront.

The catchcry was fiscal neutrality and performance pay was seen as a way to manipulate the wages bill to fit the available budget, with no guaranteed rewards for good performance. This continues to be the case in most public sector workplaces.

A report on performance pay to an OECD Experts Meeting in 2003 had this to say about performance pay.

"Performance pay can indeed be a way to contain salary costs" OECD

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While performance pay was ostensibly introduced to motivate employees by rewarding individual achievement, other agendas were at work, as described in the report on performance pay to an OECD Experts Meeting. This said: Performance pay "can indeed be a way to contain salary costs by reducing the incidence of automatic progression through salary levels. The individualisation of pay may also be a way to circumvent the collective bargaining process, thus reducing the influence of unions and re-establishing managerial control." (Performance-related pay of government employees. Background paper. Experts Meeting. October 2003.)

Does it motivate us?

The first major piece of research on how performance pay influences motivation in the public service was a UK study of the scheme introduced into the Inland Revenue. It found that, on balance, the performance pay was more likely to be demotivating, largely because staff thought it was unfair.

"If the scheme did not improve employee motivation, it is hard to see how it could have enhanced employee performance," the researchers concluded. (British Journal of Industrial Relations June 1994.)

OECD reports identify staff jealousy and a decline in morale as being among the possible side effects of performance pay. These can undermine collegiality, particularly when staff are competing for a limited amount of performance pay.

Performance pay systems actively undermine personal motivation. When people do not get the rewards they were hoping for they feel punished.— A Kohn

There have been many surveys on what it is about their work that staff value most; what motivates them to do a good job. Typically, these surveys find that job security, recognition of achievement, and respect and fair treatment top the list. A problem with performance pay is that it is largely viewed as unfair and disrespectful and it frequently fails to recognise achievement.

Alfie Kohn, an American lecturer on education and psychology and one of the best-known writers on the subject of motivation, argues that performance pay systems actively undermine personal motivation. When people do not get the rewards they were hoping for they feel punished. And even if they get the rewards, "it is contingent on satisfying terms someone has imposed. Sooner or later this sense of being controlled feels punitive."

The problems with performance pay

The tide is turning on performance pay. OECD reports have revealed widespread dissatisfaction and growing questions about its ability to improve performance and motivation. Some of the reasons for employee dissatisfaction are summarised below.

Staff morale and motivation

There is a large body of research to show that performance pay is not an effective way of motivating people and raising performance. Quite the reverse: it can lead to undesired outcomes including a decline in morale, discord between staff, and a breakdown in the relationship between managers and employees.

“In the real world [performance] incentives often have dysfunctional effects, and do not necessarily lead to improved motivation and performance.” (OECD).

Other possible side effects include a focus on narrow performance goals at the expense of other important parts of the job, and employees withholding information – such as the need for more training – that may impact on performance ratings

The Minister of Education, Steve Maharey, recently spoke out against performance pay in the education sector because it would undermine collegiality. “Either you can’t afford to pay for it because you discover lots of people doing really good things so you’re always choosing and it creates jealousy and division. By picking people out in this way, you’re destroying your basic incentive to have a high quality group of people across the board.” (NZEI Rourou December 1, 2005)

Comment from PSA members:

“There is too much competition between colleagues which causes friction.”

“I am very disillusioned. Being a loyal employee and trying your best just doesn’t seem to cut it these days.”

“Staff feel undervalued and frustrated, particularly when they take pride in the job being done well. Performance pay causes unnecessary stress for both staff and management.”

Fairness

Performance pay systems are based on appraisal of the individual worker, often by their line manager who may or may not be skilled in the process. In such a system it is hard for bias and personal favouritism not to become issues, whether real or perceived. As the UK Employers Organisation for Local Government recently pointed out to local authorities: “Too much of the process relies on the quality of judgement made by a line manager.”

The origin of performance pay is the piecework system that began in the factories of the early 20th century. It was relatively straightforward to count, and pay for, the number of widgets each worker produced. It’s far from straightforward to objectively measure public service delivery or policy advice functions. When subjective assessment takes the place of quantitative criteria, the scheme is open charges of unfairness.

The way the performance pay operates in local and central government is unfair in another and very basic way: there is only a limited amount of money to spread around. It operates a bit like the old School Cert exams where only so many were allowed to pass.

Comment from PSA members:

“In our organisation you have to walk on water to obtain [performance pay] – unless you are a manager.”

“The moderation process is a budgetary exercise and a good deal of what goes on is less than objective.”

“Staff are being set up to fail so management can meet budget.”

“I feel we should be marked as either “doing the job” or “not doing the job”. We should annual increments if we are doing our job. This would be fair all round.”

“As a supervisor I find the process to be emotionally, psychologically and professionally abusive of staff.” PSA member

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Respect

Many workers feel the performance pay system demeans their professionalism. They find something inherently disrespectful in having a carrot dangled in front of them every year for which they have to tick the right boxes and sweat through an interview.

Comment from PSA members:

"Performance pay is demeaning, ineffective and discriminatory."

"I refuse to participate in the performance pay scheme. I have been there, working six-day weeks and 10-hour days to prove how wonderful you are."

"As a supervisor I find the process to be emotionally, psychologically and professionally abusive of staff."

Productivity

There is little information on how much time is spent on performance pay systems – paperwork, interviews, appeals, planning what to say, thinking about what was said – and what effect this has on overall productivity.

One of the hallmarks of a good pay system is that no-one thinks about it very much. Anecdotal evidence from PSA members suggests that a great deal of time and energy is focused on performance pay.



What about poor performers?

Performance at work does matter. New Zealanders have every right to expect high-quality public services, delivered with skill and grace.

Getting rid of performance pay systems does not mean accepting poor performance. Rather it's an argument for good performance management systems that nurture people's potential, deal with problems as they arise rather than wait until the next performance appraisal, and actively manage those who choose to drag the chain.

Dealing with poor performance is the job of management, not the pay system. Accepting this may require greater investment in developing management skills in effective performance management.

A recent NZ Herald article included comment on performance management from Dr Marie Wilson,

Comment from PSA members:

"Stress levels increase and providing proof that you deserve any performance pay takes up a lot of time. Neither the employer nor the employee really get a good deal."

"It is a time- and effort-consuming distraction from core productive duties."

"The job has enough pressures without this system adding to them. I have seen very good and valued workers leave because of the negativity surrounding the performance pay rounds."

"I won an appeal [but] it took hours and hours of work time to process."

Discrimination

Performance pay is widely recognised as contributing to pay inequities, particularly between women and men. In its advice to local authorities, the UK Employers Organisation for Local Government said one of the disadvantages of performance pay is that it reduces pay equity. And in the UK that can make an authority liable to costly equal pay challenges.

Research on pay equity in New Zealand and overseas has emphasised the importance of transparency and union involvement in pay fixing as a basic requirement for achieving equitable pay rates. Performance circumvents both requirements.

associate professor of management at Auckland University. "Employees are unlikely to raise issues where they feel uncertain or need help or clarification if that is likely to result in reduced bonuses or other negative consequences."

Uncoupling pay from performance management can only encourage free and frank discussions about performance and career and professional development.

And the rewards for high performers?

In a decent workplace, people who work well should be rewarded through decent pay, promotion and new opportunities, the chance to develop new skills, respect from colleagues and management, and the personal enjoyment and satisfaction that come from doing a job well.

Pay equity

Performance pay systems are designed to reward individuals differently for doing the same job; pay inequality is therefore built into the system. With individual reward there is an element of discretion and subjectivity and therefore a higher risk of bias.

There is strong evidence that women tend to be disadvantaged in pay systems that rely on subjective assessments, rather than on transparent pay scales. A resource by the Department of Labour suggests some possible reasons for this, including a tendency for men to be rated more highly than women, even when eligibility is equal, and to negotiate higher performance payments and starting rates. (Working Towards Pay and Employment Equity for Women. Department of Labour, 2005).

Similarly, research commissioned by the Ministry of Women's Affairs in 1999 found greater potential

for indirect discrimination as a result of subjective assessments by managers. It also noted that senior level employees, who are more likely to be men, generally receive higher amounts and higher percentages of performance pay than those at lower levels of the organisation. (Bryson, Burns, Hanson, Lambie, and Ryan. Performance Pay Systems and Equity: An analysis in five New Zealand organisations. VUW, 1999)

Research provided in 2003 to the New Zealand Taskforce on Pay and Employment Equity found that, in the public service, the use of market data, the setting of starting salaries and performance-related pay systems could be a source for direct or indirect gender bias. "There is large scope for gender bias due to the subjective judgements made in every building block of the pay-fixing system," the research found. (Lonti and May, Victoria University of Wellington, 2003.)

Bargaining pay

The PSA is bargaining for fair and transparent pay systems which will be a significant change for most public sector organisations. Negotiating pay is central to what unions do. It is through bargaining and political processes that the PSA and its members can deliver equitable and meaningful pay increases, and build fair remuneration systems.

As collective bargaining gets underway in your

workplace, your PSA organiser and delegates will hold union meetings to discuss our shared goals and how we can act collectively to achieve them. make sure you attend and have your say.

This information leaflet is published by the PSA – the union for people working in the public sector.

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Principles of a good pay system

Fairness – the remuneration system is fair to employees and to employers. This means:

- it is sustainable for the employer
- it is equitable between employees
- it does not expect the impossible from managers and employees.

Employees feel valued – the pay is seen as:

- fair for the job
- acknowledging increases in the cost of living

Transparent – employees know:

- how the pay system works
- where their pay fits in to relation to others' pay

Equity – the effects of the market are mitigated so:

- discrimination is removed

- inequities based on gender, race and disability are neutralised
- there is fair relativity between employees.

Ownership – employees play a full part, through their union, in building a good pay system:

- pay is bargained with the union
- discretion around pay is minimised.

Sustainability – the pay system is:

- affordable
- straightforward
- easy to administer.

Predictability/certainty – employees have trust in the system to:

- meet reasonable expectations
- not unreasonably raise expectations.